BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2013-336-E - ORDER NO. 2013-803

NOVEMBER 26, 2013

IN RE: Petition of South Carolina Electric & Gas Company for Authorization to Remove from its Retail Electric Rate Base Accumulated Deferred Income Tax Asset Amounts	))))	ACCOUNTING ORDER

This matter comes before the Public Service Commission of South Carolina (the "Commission") on the Petition (the "Petition") of South Carolina Electric & Gas Company ("SCE&G" or the "Company") pursuant to S.C. Code Ann. § 58-27-1540 (Supp. 2012) and 10 S.C. Code Ann. Reg. 103-825 (2012), seeking an order for regulatory and financial accounting purposes authorizing SCE&G to remove from its retail electric rate base certain accumulated deferred income tax ("ADIT") asset amounts associated with the construction work in progress for V. C. Summer Units 2 & 3 (the "Units"). In the Petition, SCE&G also seeks authorization to accrue for regulatory and financial accounting purposes certain carrying costs on those amounts while they are held outside of regulatory rate base.

As shown in the Petition, ADIT assets are routinely generated when new generation units are constructed in South Carolina. This occurs because, in calculating tax liabilities, the Federal Income Tax Code requires SCE&G to compute and capitalize (as opposed to deducting currently) considerably more interest expense associated with construction work in progress ("CWIP") than is capitalized for financial accounting purposes under generally accepted accounting and regulatory accounting rules. See 26 U.S.C. § 263A (2011). Part of the reason is that under long-standing principles of South Carolina regulation, utilities are allowed to collect in rates the financing costs associated with CWIP, including CWIP on new generating plants. When such collection begins, interest expense ceases to be capitalized on this CWIP for financial accounting purposes. However, interest expense does not cease to be capitalized on this CWIP for income tax purposes. This disparity in the tax and accounting treatment of CWIP-associated interest expense creates what the accounting rules refer to as a 'temporary' difference. The accounting rules require that an ADIT asset be recorded in the amount of the income taxes associated with such a temporary difference.

From a regulatory perspective, ADIT assets are relevant because they generally increase a utility's rate base. In effect, where ADIT assets are involved, the utility has 'prepaid' part of its current tax liability. This 'prepayment' will be reversed over time. The ADIT asset will reverse as the capitalized interest expense is taken as a charge against taxable income through additional tax depreciation, thereby resulting in decreased current tax liabilities. Such depreciation begins to be recognized after the plant goes into service. The 'prepayment,' therefore, represents an investment of capital by the Company in its utility business and so is properly reflected in rate base pending its reversal as a result of decreased current tax liabilities attributable to the additional tax depreciation. For that reason, ADIT assets are generally added to rate base and increase it until they are reversed.

Where new plant construction is involved, the increase to rate base caused by ADIT assets generated as a result of the larger amount of interest capitalized for tax purposes is almost always quickly offset by much larger ADIT liabilities that begin to accrue when the plants go into service. These ADIT liabilities arise because the Federal Tax Code allows most capital assets (once they are placed in service) to be depreciated much more quickly for tax purposes than they are depreciated for financial accounting and regulatory purposes. The resulting ADIT liability is calculated each tax year based on the difference between the net basis in the property for income tax purposes and the net basis for accounting purposes that results from the differing amount of depreciation. In the initial years after a plant goes into service, the level of tax depreciation is much higher than the level of financial depreciation and the ADIT liability grows quickly. When a new generating plant goes into commercial service, the ADIT liabilities associated with accelerated tax depreciation are typically large enough to offset any CWIP-associated ADIT assets almost immediately.

In its Petition, SCE&G presented ADIT calculations based on the present tax rules and current assumptions about the timing and amount of construction expenses for the Units. Those calculations show that depreciation related ADIT liabilities associated with the Units should fully offset ADIT assets shortly after the Units go into service. Those calculations show that, from that time forward, net ADIT liabilities will benefit customers by reducing rate base and revenue requirements and, all other things being equal, will reduce rates over the useful lives of the Units.

Based on these facts, SCE&G requests in its Petition that the Commission issue an accounting order allowing SCE&G to remove from regulatory rate base all ADIT asset amounts associated with the differing treatment of interest expense related to CWIP on the Units for book and tax purposes that accrue from January 1, 2012, forward. SCE&G asks that these amounts remain outside of rate base until such time as the Units begin to generate ADIT liabilities for accelerated tax depreciation. SCE&G requests that each year thereafter, sufficient ADIT assets be returned to rate base to offset fully any depreciation related ADIT liabilities associated with the Units. When the balance of these ADIT liabilities exceed the balance of these ADIT assets, all such ADIT assets would be returned to rate base.

In addition, the Company requests permission to accrue to regulatory asset accounts carrying costs on the ADIT assets being held outside of rate base. SCE&G would record those carrying costs at its embedded average cost of long-term debt. Finally, SCE&G seeks authorization to amortize the deferred carrying costs over ten years beginning at the time when depreciation related ADIT liabilities associated with the Units are sufficient to offset fully the effect of ADIT debits related to the Units and the revenue requirements resulting from the amortization of carrying costs on those amounts. In this way, there will not be any negative rate impact to SCE&G's customers attributable to the total ADIT associated with the Units. According to SCE&G, the requested accounting treatment will eliminate the possibility that increases in regulatory rate base attributable to ADIT assets associated with the Units will result in increased base rates to electric customers during the period in which such amounts are held outside of rate base.

For the reasons set forth in the Petition and discussed above, the Commission finds that it is appropriate to grant the accounting order requested here. Doing so will prevent ADIT assets associated with the differing treatment of interest cost for book purposes and tax purposes on CWIP on the Units from increasing SCE&G's electric rate base during the period from January 1, 2012, until such time as ADIT liabilities associated with depreciation are sufficient to fully offset them and the expenses associated with the amortization of carrying costs on those amounts. From that point forward, ADIT liabilities should provide reductions in revenue requirements for SCE&G's customers over the useful life of the Units. Deferring recognition of these ADIT assets until they can be matched with ADIT liabilities ensures that these temporary increases to rate base will not result in upward pressure on customers' rates during the construction period.

The Commission also grants SCE&G's request that SCE&G be allowed to accrue, effective January 1, 2013, carrying costs for regulatory and financial accounting purposes on the balance of the amount of ADIT assets removed from rate base at its embedded average cost of long-term debt. These carrying cost accruals would be accumulated in regulatory asset accounts. The Commission agrees that the amounts in the regulatory asset accounts should be amortized over a ten-year period beginning at such time as the amount of depreciation related ADIT liabilities associated with the Units would be sufficient to offset fully the ADIT asset balances and the expenses associated with the amortization of carrying costs on those amounts.

By letter dated October 21, 2013, the South Carolina Office of Regulatory Staff ("ORS") does not object to the Company's Petition.

The Commission has fully reviewed the Company's Petition and the response by ORS. Having determined that the relief requested in the Petition is consistent with the public interest, the Commission hereby issues this Order which authorizes SCE&G to (i) remove from regulatory rate base all ADIT asset amounts associated with the differing treatment for book and tax purposes of interest expense related to CWIP on the Units from January 1, 2012, forward; (ii) return those ADIT assets to regulatory rate base in an amount sufficient in each year to offset fully any ADIT liabilities associated with the depreciation of the Units, returning the entire amount of ADIT assets to rate base when ADIT liabilities associated with depreciation exceed the amount of ADIT assets; (iii) effective as of January 1, 2013, accrue carrying costs on any ADIT asset balances held outside of rate base at the Company's embedded cost of long-term debt with such accruals to be held in regulatory asset accounts; and (iv) amortize the balances in these regulatory asset accounts over ten years beginning on such date as the revenue impact of ADIT liabilities associated with the Units, netted against the ADIT assets associated with the Units, is sufficient to allow amortization of those balances without increasing the revenue requirement of the Company.

The Commission further orders SCE&G to report annually to the ORS and the Commission the balance of the ADIT assets held outside of rate base and the balance of the associated accrued carrying costs held in the regulatory asset accounts, with both balances to be reported as of December 31 of the preceding year. Such report shall be filed by the last day of February each year, and reporting shall continue until such time as the entire amount of ADIT assets has been returned to rate base and the amortization of the balances in the regulatory asset accounts has begun.

This Order will remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

G. O'Neal Hamilton, Chairman

ATTEST:

Nikiya Hall, Vice Chairman

(SEAL)